

Message Text

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ACTION ARA-20

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AMEMBASSY GUATEMALA

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GUATEMALA FOR ROCAP

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TAGS: ECON, OGEN, HO

SUBJECT: HURRICANE FIFI - SEVENTH ECONOMIC DAMAGE ESTIMATE

SUMMARY: TEGUCIGALPA

SUMMARY: THE FOLLOWING PARAS ON ECONOMIC EFFECTS OF HURRICANE FIFI SELECTED FROM AID PREPARED DRAFT FOR HERMAN KLEINE AND RUSSELL MCCLURE EVALUATION MISSION. DATA BASED UPON OFFICIAL GOH ESTIMATES. THE BALANCE OF PAYMENTS DEFICIT IS ESTIMATED AT \$30 MILLION IN 1974 AND \$65 MILLION IN 1975. BUDGETARY LOSS IS ESTIMATED AT \$14.5 MILLION IN 1974 (DOWN 11 PERCENT) AND \$42 MILLION IN 1975 (DOWN 27 PERCENT). NO SPECIFIC FIGURES ARE AVAILABLE ON UNEMPLOYMENT EFFECTS. INFLATION EXPECTED TO INCREASE FROM 11.6 PERCENT ANNUAL RATE DURING FIRST HALF TO AT LEAST 20 PERCENT BY DECEMBER AND CONTINUE INTO 1975. END SUMMARY.

1. BALANCE OF PAYMENTS IMPACT. -- THE GOVERNMENT OF HONDURAS
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PROJECTS A BALANCE OF PAYMENTS DEFICIT OF \$30 MILLION IN 1974

AND \$65 MILLION IN 1975. BANANA EXPORTS, PROJECTED TO BE \$115 MILLION THIS YEAR, WILL PROBABLY BE LIMITED BY STORM DAMAGE TO NO MORE THAN \$85 MILLION AND ONLY \$55 MILLION NEXT YEAR. AFTER THAT, HOWEVER, LARGE GAINS WILL BE RECORDED SO THAT BY THE END OF 1976, PRE-FIFI MONTHLY EXPORTS WILL BE RESTORED. EXPORT WEAKNESS IS ALSO DUE TO LOW WOOD AND COFFEE PRICES THIS YEAR, AND LOWERED MEAT EXPORTS. IN TOTAL, EXPORTS WILL PROBABLY DROP \$40 MILLION (12PERCENT) IN 1974 AND ANOTHER \$65 MILLION (24 PERCENT) IN 1975.

2. IMPORTS WILL RISE. LARGE IMPORTS OF STAPLES (CORN, BEANS AND RICE) WILL BE NECESSARY. REPLACEMENT OF LOST PLANT AND EQUIPMENT IS ESSENTIAL. THE DEMAND FOR IMPORTED STRUCTURAL STEEL WILL INCREASE WHILE INDUSTRIAL RAW MATERIALS IMPORTS WILL CONTINUE. AT THE SAME TIME, HONDURAS IS A COUNTRY MOST SERIOUSLY AFFECTED BY INCREASED PETROLEUM COSTS, WHICH ALONE JUMPED THE IMPORT BILL BY ALMOST \$30 MILLION THIS YEAR (FROM 8 TO 18 PERCENT OF IMPORTS).

3. FACED WITH SLUGGISH EXPORTS AND VOLATILE IMPORTS IN THE FIRST HALF OF THE YEAR, THE CENTRAL BANK HAD RESTRICTED COMMERCIAL CREDIT AND TIGHTENED CONTROLS ON AUTO IMPORTS. FURTHER RESTRAINTS ON CONSUMER ITEMS WILL UNDOUBTEDLY BE NECESSARY NOW. AS IT IS, FOREIGN EXCHANGE RESERVES WILL BE DOWN TO THREE WEEKS OF IMPORTS BY THE END OF THE YEAR. FOR 1975, THE GAP WILL BE OVER \$60 MILLION.

4. BUDGETARY EFFECTS. -- GOVERNMENT COLLECTIONS OF BANANA INCOME AND EXPORT TAXES PROBABLY WILL CEASE FOR THE NEXT 12 MONTHS, AND RECEIPTS FROM IMPORT DUTIES AND PERSONAL INCOME AND SALES TAXES WILL DROP OFF. THE MINISTRY OF PLANNING FURTHER ESTIMATES THAT \$10 MILLION OF INDUSTRIAL LOSSES WILL BE DEDUCTIBLE FROM INCOME TAX FOR THE NEXT THREE YEAR. AT THE SAME TIME, MOST OF THE IMPACT WILL BE FELT ONLY IN 1975 AND BEYOND, SINCE THE MAJORITY OF 1974 TAXES HAVE ALREADY BEEN COLLECTED ON A CURRENT BASIS. THE LOSS OF REVENUE IS ESTIMATED AT \$14.5 MILLION IN 1974 (DOWN 11 PERCENT) AND \$42 MILLION IN 1975 (DOWN 27 PERCENT). MEANWHILE, EXPENDITURES WILL HAVE TO INCREASE TO ATTEND PRIORITY REHABILITATION AND RECONSTRUCTION NEEDS. SOME, OF COURSE, LIMITED OFFICIAL USE

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WILL BE FINANCED BY INTERNATIONAL CREDITS, BUT EVEN THOUGH IT IS FAR TOO EARLY TO DETERMINE WHAT ADDITIONAL EXPENDITURES SHOULD BE MADE, IT IS CLEAR THAT A MAJOR GOVERNMENT SELF-HELP EFFORT WILL BE LAUNCHED.

5. EMPLOYMENT EFFECTS. -- CLEAN-UP OPERATIONS AT THE LARGE AMERICAN OWNED BANANA COMPANIES AND AT THE INDEPENDENT PRODUCERS DEPENDENT ON THEM COULD MEAN SUBSTANTIALLY REDUCED

LABOR REQUIREMENTS. THE REPERCUSSIONS INTO THE COMMERCIAL AND SERVICE SECTION THROUGHOUT THE COUNTRY COULD LEAD TO SERIOUS ECONOMIC AND SOCIAL PROBLEMS. INDUSTRIAL EMPLOYMENT WILL NOT SUFFER SIGNIFICANTLY AS A DIRECT EFFECT OF THE STORM. MOST INDUSTRIAL CONCERNS WILL REESTABLISH NORMAL PRODUCTIVE CAPACITY WITHIN TWO MONTHS. HOWEVER, RECONSTRUCTION LABOR DEMAND WILL NOT ABSORB THE LABOR POTENTIALLY AVAILABLE IF EXTENSIVE HIGHLY LABOR INTENSIVE PROJECTS ARE NOT INITIATED. RURAL LABOR IN PARTICULAR WILL SUFFER.

6. INFLATION. -- THE RATE OF INFLATION DURING THE FIRST SIX MONTHS OF 1974 WAS 11.6 PERCENT, MOSTLY BECAUSE OF PETROLEUM PRICE INCREASES AND SEASONAL FOOD SHORTAGES. THIS RATE WILL INCREASE TO AT LEAST 20 PERCENT BY DECEMBER AND CONTINUE INTO 1975 ON THE BASIS OF CONTINUED FOOD SHORTAGES, THE NECESSITY FOR HIGHER BASIC GRAIN SUPPORT PRICES TO ENCOURAGE PRODUCTION AND INCREASED DEMAND TO REPLACE DISASTER LOSSES. WHILE THERE IS NO APPARENT ALTERNATIVE TO THIS RATE OF INFLATION, IMPORTS COULD COUNTERACT PRICE PRESSURES IN SOME AREAS.

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